DOCUMENT RESUME

ED 114 019 HE 006 923

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TITLE Emerging Financial Issues in Postsecondary Education: Shall We Take the Offensive?
INSTITUTION Western Interstate Commission for Higher Education, Boulder, Colo. National Center for Higher Education Management Systems.
PUB DATE 28 Jan 75
NOTE 15p.

EDRS PRICE MF-$0.76 HC-$1.58 Plus Postage
DESCRIPTORS *Change Strategies; Costs; *Economic Climate; Educational Demand; Educational Economics; *Educational Finance; Educational Legislation; Educational Supply; *Financial Policy; Government Role; *Post Secondary Education; Program Planning; Proprietary Schools; State Federal Aid

ABSTRACT

Some financial issues in postsecondary education which, though more or less obscured by other concerns at present, may soon gain national attention. These issues are: our national policy of regarding postsecondary education as a discretionary spending item in either inflationary or recessionary times; the steady-state syndrome, a mind-set that leads to the dangerous assumption that funding levels should not change; the concept of entitlement, and the related issues of a lack of correspondence between federal student aid and state or regional plans; the demand that public institutions get rid of unviable or marginally efficient programs in combination with the high cost of phasing out or converting current programs; and the growing tendency for legislatures to link funding to productivity, quantitatively assessed. Along with these issues are some that seem to offer no offensive strategy: the emerging dominance of student aid as a delivery mechanism for financing postsecondary education; and the place of Voc/Tech and proprietary sectors on the funding picture of postsecondary education. (Author/KE)

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FOR YOUR INFORMATION

EMERGING FINANCIAL ISSUES IN POSTSECONDARY EDUCATION: SHALL WE TAKE THE OFFENSIVE?

by

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Delivered at the

NCHEMS Seminar for
American Council on Education Interns

January 28, 1975
Boulder, Colorado

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Many of the financing issues that are being actively debated today have been with us for some time. I'll mention but a few: student aid vs. institutional aid, tuitions at public institutions vs. tuitions at private institutions, and the share of the cost of education that should be borne by the student and his family. The familiar, immediate issues naturally tend to capture our attention. I wish to call to your attention some financing issues which, though more or less obscured by other concerns at present, may soon force themselves on the national attention.

In addition, I want to suggest an overall strategy for confronting the new financing issues in postsecondary education--an offensive strategy. We in postsecondary education do not think of ourselves as hucksters, and we don't want to acquire the hustler's image. But for twenty years now, postsecondary education has not had to compete, not had to argue very hard, to get what funds it wanted, or most of them, at any rate. Until very recently, funds came to us virtually for the asking. If occasionally a funder posed skeptical questions about our requests, we simply turned elsewhere--and the funds were forthcoming. There was a day when large foundations seemed almost to compete for the privilege of supporting higher education. There was a day when it was politically dangerous for a legislator to oppose generous appropriations for state universities. But that day is over, and it will not dawn again in the foreseeable future. Now we must make our case to funders. This idea, of course, is not original with me. You may recall that the final report of the Carnegie Commission two years ago said much the same thing. I would like to quote from it one brief passage:

"Higher education, state and federal support notwithstanding, should

take the major initiative in determining its own future. Too often it has been the recipient of change rather than the originator of it. A new generation of leadership is required if higher education is to design its future and not merely live within the framework that others will have built for it."

We have done little to implement that recommendation.

Many of us in postsecondary education have long been guilty, and are guilty now, of responding to troubles after the fact. What is worse, we sometimes have taken a Faustian approach to the largest issues, putting off for the moment the inevitable reckoning with the devil. We have known since the early sixties that the number of high school graduates would begin an absolute decline in the late seventies, and we have talked a good deal about that lamentable fact. Yet we have taken few concrete steps to prepare for this probable downswing. For example, legislators are fond of pointing out that the overproduction of Ph.D.'s continues in several disciplines in which, by every indication, the teaching job market will be worse in five years than it is now.

Not only have we often failed to anticipate problems and do something about them: when we are asked embarrassing questions, we react defensively. We are hurt, even offended, that our needs and intentions should be subject to question. But the truth is that there are no embarrassing questions. There are only embarrassing answers. One way to avoid having to give embarrassing answers is to anticipate the questions, perhaps take a hand in formulating them. Why do we not look well ahead, identify problems while they are still incipient, assess their potential severity, and in a very straightforward way demand of

our funders: What are you going to do, to help us avoid this approaching trouble? That is the strategy I propose. I am as weary of football metaphors as you must be. But for postsecondary education, I am convinced that the best defense will be a good offense, and that the logic behind the offensive strategy of ball control applies equally to the strategy of question control.

Now, what are the emerging financial issues? The first is our national economic policy. Are we fighting inflation, or recession? Assuredly, postsecondary education is being heavily victimized by both. Ours undoubtedly is a twin-horned dilemma. But I think it makes a great deal of difference to the financing of postsecondary education whether our federal and state governments decide to fight inflation or to fight recession. For example, anti-inflation measures may well create a bleak financing environment for postsecondary education. Cuts in federal and state spending are achieved, more often than not, at the expense of social programs. Education, health, and welfare programs still are widely regarded as dispensable fringe benefits, not as necessities to maintain the wellbeing of the American people. This attitude is reflected in postsecondary education in many ways. Quality aspirations give way to austerity measures. Research becomes oriented toward the immediately pragmatic. The priority objective in education becomes preparation for a well-paying, secure job rather than a well-rounded liberal education. And the essential funding question becomes: What is the minimum necessary to get by on next year? Long-term objectives are deferred.

On the other hand, postsecondary education does not necessarily fare well in times of recession. Governmental policies often emphasize public service jobs that have little to do with serious and long-term national needs. Many

of us in postsecondary education feel that it would be better for the unemployed to be learning new and valuable skills than filling newly created, marginal jobs. We also feel that research and public service activities in postsecondary education have a double advantage in times of recession: they are good long-term investments, and tney also provide a good multiplier effect for dollars intended to create a short-term economic stimulus. By supporting campus-based research, the government can not only help maintain employment in postsecondary education, but also pursue other national objectives, such as reducing environmental pollution or developing new sources of energy. No part of such funds is syphoned off as institutional profit, incidentally, and none of it goes into lavish executive salaries or Lear jets.

I think it is time for the postsecondary education community to openly question our national policy of regarding postsecondary education as a discretionary spending item in either inflationary or recessionary times. The long-term effects that education has on unemployment, manpower mobility, and economic growth must be examined. The short-term effects that dollars spent on education have on the general economy must be determined. We ought to assemble hard facts and figures to show whether it is better to fight recession by paying the otherwise unemployed to pick up paper in the parks, or to spend public resources on education in order to develop the capacities of those who cannot, for the time being, find work.

No one is going to make our case for us. We must do our own homework if we are to persuade the public, the Congress, and the legislatures that postsecondary education generates both short-term and long-term economic benefits, in times of inflation, in times of recession, and in times of real economic growth.

The next worry on my list of financing issues is the steady-state syndrome, a mind-set too prevalent among funders and not unknown among educators. The notion that postsecondary education is in a steady state leads to the dangerous assumption that funding levels should not change. It also warps assessments of existing circumstances and fosters misleading predictions. Too often, educators are not prepared to accept the fact that decline may be necessary in some sectors: they want to hold all ground gained. At the opposite extreme is the funder mesmerized by the myth of steady state, who holds that no additional capacity is needed and therefore no additional funds.

But make no mistake about it: steady state is a myth and a dangerous attitude. If we outlawed the pill and elective abortion tomorrow so as to dramatically reverse the decline in the birth rate, it would make no difference to postsecondary education for nearly twenty years. But enrollment is not necessarily hinged to the birthrate. Even if it were, enrollment would not rise and fall evenly across the nation and across the wide spectrum of types of institutions in postsecondary education. Population shifts can and do increase demand for education locally and regionally, even during a period of decreased overall demand. This variation in local and regional enrollment patterns is a crucial consideration. We should remember the fate of the statistician who was drowned in a stream whose average depth he had very accurately calculated to be two feet, three inches.

But enrollments are not necessarily tied to population shifts any more than they are to the birth rate. How do we know that we have even come close to satisfying the urge of the American people to learn? If there are to be relatively fewer young people, they can expect, as we can, to live longer than

the previous generation and to retire earlier. The emphasis on materialism in American life had begun to decline even before it became a matter of financial necessity. It is reasonable to expect that in their mature years, more Americans will be concerned with self-renewal, with learning for its own sake. We may see substantial numbers of Americans willing and anxious to look on forty or thereabouts as the time to retire, at least temporarily, and re-educate themselves for new, creative occupations. That would create more pressure for new programs and new instructional approaches. Inevitably, too, as the number of high school graduates levels off and declines, some established programs will have to be phased down. Some adjustment already has had to be made because of the recent leveling off of the college-going rate. The prospect is for anything but a steady state, and phasing up and phasing down costs money. Yet there may be ways to moderate these expensive changes. Recent studies link the decline in the college-going rate to some extent with the high school drop-out rate, for which our elementary and secondary colleagues take such a beating. Perhaps we should make common cause with them--after all, we trained them--and become aggressively concerned about reducing the high school dropout rate. The payoff for postsecondary education would be an increase in the pool of college-eligible young people.

Another emerging financing issue has to do with the concept of entitlement. The current disparity between the need for student financial aid and actual appropriations already is a worry to us all. Other federal social programs, such as welfare, unemployment compensation, and medicare, are essentially entitlement programs. That is, the government says that anyone meeting specified criteria of need shall receive certain benefits and business makes

appropriations accordingly. If initial appropriations prove to be too small to meet the total entitlement, they are increased. Student aid, however, is not provided with the concept of entitlement in mind: Congress takes the lump-sum approach. In consequence, the gap between the need for student aid and available funds is significant at present, and is expected to increase dramatically in the coming academic year. If the concept of entitlement should be written into federal programs to aid students, we would see considerable improvement in the stability of postsecondary education financing.

There is another problem embedded in the issue of criteria for aid. Current programs such as student aid employ the same criteria for all, without respect to financing arrangements in effect in the different states and regions. But state-level and regional financing programs are not at all uniform. As a result, federal programs affect individuals and states differently. For example, student-aid programs tend to assist high-tuition states more than they do low-tuition states. Student aid programs like the G.I. Bill, that provide a fixed entitlement to the student, tend to assist low-tuition institutions proportionately more than high-tuition institutions. Could we not devise federal programs that promote a partnership between the federal and state governments under which federal funds reinforce the individual state financing strategies? I submit that this can be done and that it would be to the advantage of every institution to examine seriously and support such proposals. For a more complete explanation, I refer you to the Kirschling/Postweiler Plan. Its essential concept is to provide proportionate grants to states, based on each state's effort, relative to its resources, to finance postsecondary education and on the number of students to whom the state provides postsecondary education. Under the Kirschling/Postweiler

Plan, each state would be free to employ student aid, institutional aid, or any other financing mechanism it prefers. Each state would decide whether to maintain a public or private system, or a combined system. The plan would reward states in proportion to their effort to finance postsecondary education and improve access. It would penalize states that reduce their financing efforts and reduce access. It would leave financing strategies and educational programming in the hands of the states and institutions. It would give the states no incentive except to adequately support postsecondary education. Furthermore, this plan could incorporate the entitlement concept, thereby promoting stability in financing arrangements between the states and the federal government.

There is another financing issue buried in the current demand that public institutions get rid of unviable or marginally inefficient programs. What funders have not yet accepted is the fact that the cost of phasing out or converting programs is not cheap. Funding requests for such purposes are usually viewed in a negative light. It is important that we begin to accept the fact that certain programs are going to need to be phased out and argue for more funds to do the job better. Phase-out and conversion costs are an investment in modernization, a long-term investment in improved productivity.

Perhaps the thorniest issue we must deal with in the near future is the growing tendency for legislatures to link funding to productivity, quantitatively assessed. Just recently, the chairman of the Colorado legislature's Joint Budget Committee issued a memorandum to all the state's institutions and agencies, specifying that in budget proposals for next year, all increased costs should be offset by gains in productivity. Unit costs are to remain at this year's levels. The memorandum doesn't necessarily speak for this legislative committee

as a whole. But it is one more indication that funders feel we have not examined the question of productivity seriously enough. I believe they are right. Let's not look at productivity solely in quantitative terms, however The qualitative aspects of productivity must be examined and means found to evaluate them. If we go on the offensive, I believe we can accomplish three things:

-Show that for many years now, we have regularly posted qualitative productivity gains in postsecondary education.

-Demonstrate that opposition to forced quantitative gains in productivity at the expense of quality is just as strong among students and parents as it is among faculty.

-Find ways to improve productivity in both the qualitative and quantitative senses.

Productivity, efficiency--these are issues which some institutions are now raising in the new competitive funding environment. Some observers have characterized the situation as internecine warfare. However it is labeled, it is a new and disquieting thing to hear spokesmen for strong institutions argue publicly that they should be getting public funds now being allocated to weaker, less efficient institutions. It would be more constructive for postsecondary education as a whole to argue for consolidation to improve efficiency, through cooperative undertakings or mergers. In some cases, we may be able to show that the relatively inefficient institution has an offsetting value. Closing a weak institution in a small community may spell economic disaster for the town. It may cost the state less to keep operating the weak institution than it would to rescue the community.

Recent experience strongly suggests that at some institutions, the price

of education is inelastic: that is, tuition and other costs can be raised substantially without affecting enrollments. This surely does not hold true for most institutions. But it does appear to be true at a number of major public institutions and at many outstanding private institutions. In a time of tight money, when we are looking for new sources of funds with a competitive vigor that threatens to develop into internecine warfare unless enough resources can be found for all, perhaps increasing tuition revenue at prestigious, high-demand institutions will help alleviate the general situation somewhat. The alternative may be to give in to pressure for across-the-board tuition increases. That, in my view, would have disastrous consequences for many students and for postsecondary education generally.

I come now to some issues, some developing worries, for which I have no offensive strategy to offer. The first is the emerging dominance of student aid as a delivery mechanism for financing postsecondary education. A major argument by the proponents of student aid is that it will require institutions to be more responsive to student programming demands--that it will allow students to vote with their feet. While I believe there are a number of holes in this argument, the steady increase in programs of student aid suggests that a good many people must believe it to be true. I suspect that they advocate this approach as much to make institutions more responsive to student demand as to help students gain access. If the use of student aid continues to increase, I believe significant changes will be necessary in programming and also in pricing policies in some areas of the nation. To take advantage of student aid, states and institutions will have to maintain tuitions at competitive levels. The relationship of instruction to public service and research may

be heavily affected also, for students may seek those institutions where direct instructional benefits are clearly demarcated from the other functions of institutions.

As the dominant delivery mechanism, student aid will also create problems for institutional management in maintaining a viable basic program. The capital base underlying instructional programs is not insignificant. Since institutions of postsecondary education do not make profits that can be plowed back into development, development of the programmatic base should be financed from some stable source. Otherwise, programs development will depend heavily on the ability of the institution to identify and respond rapidly to student demand. I have already suggested some approaches to that task, but I do not discount the difficulties.

A second worry for which I have no well-defined strategy is this: Will new initiative with regard to funding, the finding of new sources, be viewed by established funding agencies as indeed new money? Or will it be viewed as an opportunity for them to reduce their share of the total funding effort? In the latter instance, postsecondary education is not likely to benefit. Many states frankly seek to persuade the federal government to increase its support of postsecondary education so that they can reduce support. The Kirschling/Postweiler plan that I referred to earlier is one approach to this problem, but we need others. A related problem involves the place of Voc/Tech and proprietary sectors in the funding picture of postsecondary education. Does the more expansive view of higher education designated by the term postsecondary education mean that these added sectors now share funds once reserved for higher education, thus reducing everyone's share? Or will funders make an expanded financial commitment appropriate

to their enlarged view of education beyond the high school?

Recent developments in Congress may or may not gererate worries for postsecondary education. The decision in Congress to develop a budget of its own, instead of accepting or revising the administration's budget, will bring about fundamental changes. In developing its own budget, Congress will for the first time examine all appropriations priorities simultaneously. The enormous disparities that exist now between authorizations and actual appropriations should be significantly reduced. Priority trade-offs will be made more consciously and deliberately. I can't guess, though I wish I could, what effects the new budget development procedures in Congress will have on appropriations for education.

I do not know, either, what will flow from the fact that the education committees in Congress now have overview responsibilities for all federal education programs, even the ones they did not initiate. Will this more comprehensive overview lead the committees to perceive duplications and propose consolidations that will adversely affect postsecondary education? Or will the committees identify gaps in our capacity to meet legitimate needs, and create new programs to fill them?

That exhausts my list of emerging issues, coming worries. But I would be remiss if, as Director of NCHEMS, I did not make reference to management and its relationship to the financing of postsecondary education. I believe that if we are to improve the financing picture, we must learn to stay out of trouble. We <u>are</u> on the defensive. We are asked hard questions, and more frequently than not we cannot answer them to the satisfaction of our funders. The budget hearing turns into an inquisition. We should determine to <u>be</u> accountable--

and at the same time anticipate the questions of our funders, answer them before they are asked. Let's stop hiding behind the complexities of the educational process. We have sufficient reserve management capability to respond quickly and knowledgeably to all legitimate questions. If we exercise it, our credibility with funders will increase. Confidence in our ability to manage will be restored. The lurking suspicion that funds are being wasted will be diminished.

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